

STATEMENT OF REP. EDWARD J. MARKEY (D-MA)
INTRODUCTION OF THE
TRUTH AND ACCOUNTABILITY IN ACCOUNTING ACT OF 2002
THURSDAY, MARCH 13, 2002

I am pleased to join with the Ranking Democratic Member of the Energy and Commerce Committee, Mr. Dingell, in introducing this legislation to reform the accounting profession.

We are offering the "Truth and Accountability in Accounting Act" as a legislative response to the crisis of public confidence currently affecting the accounting profession. The dramatic events surrounding the collapse and bankruptcy of the Enron Corporation, the evidence that Arthur Andersen played a critical role in structuring and concealing the suspicious and shadowy partnership deals that ultimately led to Enron's demise, the unsettling revelations of document shredding and possible obstruction of justice, all have shed the harsh light of public scrutiny on practices within the accounting industry. The picture that has emerged is not a pretty one, and it has shaken investor confidence to its very foundation.

The federal securities laws were first enacted back in the 1930s to address an earlier crisis of investor confidence. At that time, there was little accurate information about the true financial and operating condition of publicly-traded companies. Corporate insiders, and sophisticated stock traders might know the truth, but ordinary investors generally did not. As a result, when the stock market crashed, the public often didn't know which companies were solid and which were shaky. Rumors and speculation abounded, as investors rushed to sell off shares in companies before they lost everything. Congress determined that mandating that companies tell the public the truth about their financial condition was the best antidote to financial panic. Assuring that the investing public had full access to the reports on corporate earnings and performance helped restore confidence in our nation's stock and bond markets. By and large, these laws have served the public quite well over the years.

However, over the last twenty years there has been a disturbing devolution within the accounting profession that has led to a new crisis in public confidence. Over the last 20 years, a new game has developed. Accountants have decided that they want to be both financial "referees" and "players" in this new game. Warnings of the dangers posed by this conflict could be heard for many years. Indeed, the Gentleman from Michigan held more than 30 hearings in the Oversight and Investigations Subcommittee on accounting irregularities affecting the insurance industry, the savings and loan industry, and defense contractors indicating problems in the accounting profession. When I chaired the Finance Subcommittee, we twice reported out a Financial Fraud Detection Act aimed at trying to deal with some of these problems, but it was blocked for years in the Senate, and then largely ignored by the industry once it was enacted.

Now, the crisis in the accounting profession has reached a critical point. Today, we are seeing report after report of investors unloading stocks due to reports of accounting irregularities by public companies, secret "off-the-books" arrangements for concealing losses or managing earnings, or fears that a company may be "the next Enron." Some of these reports and fears may be accurate. Others may not. Investors don't know what to believe. Legislative action is again needed to restore public confidence.

The bill we are introducing today helps respond to this crisis. It would:

Create a strong new accounting profession self-regulatory organization, overseen by the Securities and Exchange Commission (SEC) and empowered with comprehensive rulemaking and enforcement authority over the accounting profession;

Help to jump-start the Financial Accounting Standards Board's (FASB) efforts to resolve outstanding accounting standards issues by setting up a process that requires both the SEC and the General Accounting Office (GAO) to monitor and report to the Congress on unresolved standards setting issues;

Make corporate CEOs and CFOs accountable for a company's financial statements by requiring them to personally attest to the accuracy and completeness of the financial data they are including in their SEC filings; and

Close loopholes that have allowed Enron and other power marketers to escape the Federal Power Act's accounting, financial reporting, capital structure, and interlocking directorate requirements, with a view towards eliminating exemptions which are inconsistent with the fundamental consumer and investor protection goals of that statute.

This is a good bill, a strong bill, and one that I think helps to address some of the structural problems in the accounting industry and Corporate America. It builds on a piece of legislation I introduced last month, H.R. 3617, to deal with some of the loopholes the Private Securities Litigation Reform Act created that make it very difficult for defrauded investors to sue accounting firms whose wrongdoing makes a securities fraud possible. I look forward to working with the gentleman from Michigan and other Members of the Committee to move this legislation forward towards enactment, and I commend them for their leadership in undertaking this initiative.

Thank you.